Chapter 14

Strategies for Firm Growth

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Chapter Objectives
1 of 2

1. Explain the difference between internal growth strategies and external growth strategies.
2. Identify the keys to effective new product development.
3. Explain the common reasons new products fail.
4. Discuss a market penetration strategy.
5. Explain what an “international new venture” is and describe its importance to entrepreneurial firms.
6. Discuss the objectives a company can achieve by acquiring another business.

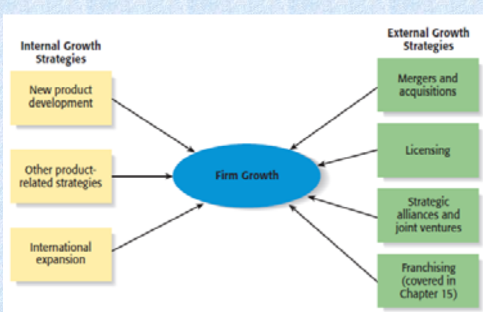
Chapter Objectives
2 of 2

7. Identify a promising acquisition candidate’s characteristics.
8. Explain “licensing” and how it can be used as a growth strategy.
9. Explain “strategic alliances” and describe the difference between technological alliances and marketing alliances.
10. Explain “joint ventures” and describe the difference between a scale joint venture and a link joint venture.

Internal and External Growth Strategies
1 of 2

Internal Growth Strategies	External Growth Strategies
Involve efforts taken within the firm itself, such as new product development, other product-related strategies, and international expansion	Rely on establishing relationships with third parties, such as mergers, acquisitions, strategic alliances, joint ventures, licensing, and franchising

Internal and External Growth Strategies
2 of 2



Internal Growth Strategies

- New product development
- Other product-related strategies
- International expansion

Advantages and Disadvantages of Internal Growth Strategies

Advantages	Disadvantages
• Incremental, even-paced growth	• Slow form of growth
• Provides maximum control	• Need to develop new resources
• Preserves organizational culture	• Investment in a failed internal growth strategy can be difficult to recoup
• Encourages internal entrepreneurship	• Adds to industry capacity
• Allows firms to promote from within	

New Product Development
1 of 3

- New Product Development
  - Involves the creation and sale of new products (or services) as a means of increasing firm revenues.
  - In many fast-paced industries, new product development is a competitive necessity.
    - For example, the average product life cycle in the computer software industry is 14 to 16 months.

New Product Development
2 of 3

Keys to Effective New Product and Service Development

- Find a niche and fill it.
- Develop products that add value.
- Get quality right and pricing right.
- Focus on a specific target market.
- Conduct ongoing feasibility analysis.

New Product Development
3 of 3

TABLE 14.2 The Top 10 Reasons New Products Fail

1. Target market is not defined correctly.
2. Product is not positioned effectively.
3. Product's benefits are not understood by the target customer.
4. Product doesn't address important customer needs.
5. Product is seen as incomplete, or it requires too many ancillary services or other pre-requisites.
6. Product costs too much or the total cost of ownership is out of line with perceived benefits.
7. Sales and marketing efforts are not focused and aligned.
8. Sales cycles are longer than expected.
9. The company is under-investing in marketing and sales efforts.
10. The target market is smaller than originally projected or product is too far ahead of the market.

Other Product-Related Strategies
1 of 2

Product Strategy	Description
Improving an Existing Product or Service	Often a business can increase its revenues by simply increasing the quality of an existing product or service.
Increasing Market Penetration	Increasing the sales of a product or service through greater marketing efforts or through increased production capacity.

Other Product-Related Strategies
2 of 2

Product Strategy	Description
Extending Product Lines	Making additional variations of a product so it will appeal to a broader range of clientele
Geographic Expansion	Growth via expanding to additional geographic locations

International Expansion
1 of 3

- International Expansion
  - Another common form of growth for entrepreneurial firms.
  - International new ventures are businesses that, from their inception, seek to derive significant competitive advantage by using their resources to sell products or services in multiple countries.
  - Although there is vast potential associated with selling overseas, it is a fairly complex form of growth.

International Expansion
2 of 3

- Foreign-Market Entry Strategies
  - Exporting
    - Producing a product at home and shipping it to a foreign market.
  - Licensing
    - An arrangement whereby a firm with the proprietary rights to a product grants permission to another firm to manufacture that product for specified royalties or other payments.
  - Joint Ventures
    - Involves the establishment of a firm that is jointly owned by two or more otherwise independent firms.
      - Fuji-Xerox is a joint venture between an American and a Japanese company.

International Expansion
3 of 3

- Foreign-Market Entry Strategies
  - Franchising
    - An agreement between a franchisor (a company like McDonald’s Inc., that has an established business method and brand) and a franchisee (the owner of one or more McDonald’s restaurants).
  - Turnkey Project
    - A contractor from one country builds a facility in another country, trains the personnel that will operate the facility, and turns over the keys to the project when it is completed and ready to operate.
  - Wholly Owned Subsidiary
    - A company that has made the decision to manufacture a product in a foreign country and establish a permanent presence.

External Growth Strategies

Mergers and Acquisitions	Licensing
Strategic Alliances and Joint Ventures	Franchising (Chapter 15)

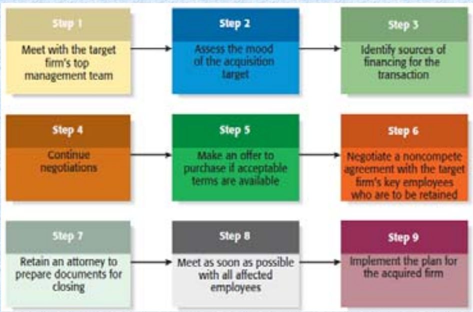
Advantages and Disadvantages of External Growth Strategies

Advantages	Disadvantages
• Reducing competition	• Incompatibility of top management
• Gaining access to proprietary products or services	• Clash of corporate cultures
• Gaining access to new products and markets	• Operational problems
• Obtaining access to technical expertise	• Increased business complexity
• Gaining access to an established brand name	• Loss of organizational flexibility
• Economies of scale	• Antitrust implications
• Diversification of business risk	

Mergers and Acquisitions

- Mergers and Acquisitions
  - An acquisition is the outright purchase of one firm by another.
  - A merger is the pooling of interests to combine two or more firms into one.
- Purpose of Acquisitions
  - Acquiring another business can fulfill several of a company’s needs, such as:
    - Expanding its product line
    - Gaining access to distribution channels
    - Achieving competitive economies of scale

The Process of Completing an Acquisition



Licensing
1 of 3

- Licensing
  - The granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions.
  - Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party.
- Licensing Agreement
  - The terms of a license are spelled out by a licensing agreement.

Licensing
2 of 3

Type of Licensing	Description
Technology Licensing	The licensing of proprietary technology that the licensor typically controls by virtue of a utility patent.
Merchandise and Character Licensing	The licensing of a recognized trademark or brand that the licensor typically controls through a trademark or copyright.

Licensing
3 of 3

- Character licensing, for example, represented a major source of revenue for Pixar in its early years.
- Popular characters, like Marlin and Dory from Finding Nemo, adorn products as diverse as dinner plates and sleeping bags.

Strategic Alliances
1 of 2

- Strategic Alliances
  - A strategic alliance is a partnership between two or more firms developed to achieve a specific goal.
  - Strategic alliances tend to be informal and do not involve the creation of a new entity.
  - Participating in strategic alliances can boost a firm's rate of product innovation and foreign sales.

Strategic Alliances
2 of 2

Type of Alliance	Description
Technological Alliances	Feature cooperation in R&D, engineering, and manufacturing
Marketing Alliances	Typically match a company with excess distribution capacity with a company that has a product to sell

Joint Ventures
1 of 2

- Joint Ventures
  - A joint venture is an entity created when two or more firms pool a portion of their resources to create a separate, jointly owned organization.
  - A common reason to form a joint venture is to gain access to a foreign market. In these cases, the joint venture typically consists of the firm trying to reach a foreign market and one or more local partners.

Joint Ventures
2 of 2

Type of Joint Venture	Description
Scale Joint Venture	Partners collaborate at a single point in the value chain to gain economies of scale in production or distribution.
Link Joint Venture	Positions of the partners are not symmetrical, and the partners help each other access adjacent links in the value chain.

Advantages and Disadvantages of Participating in Strategic Alliances and Joint Ventures

Advantages	Disadvantages
• Gain access to a specific resource	• Loss of proprietary information
• Economies of scale	• Management complexities
• Risk and cost sharing	• Financial and organizational risks
• Gain access to a foreign market	• Risk becoming dependent on a partner
• Learning	• Partial loss of decision autonomy
• Speed to market	• Partners' cultures may clash
• Neutralizing or blocking competitors	• Loss of organizational flexibility